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C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 002098

SIPDIS

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SUBJECT: NEPAL: VISIT OF CHINESE DEPUTY FOREIGN MINISTER

Classified By: CDA ROBERT K. BOGGS. REASON: 1.5 (B,D).

SUMMARY

1. (C) The October 16-18 visit to Kathmandu of Chinese Vice Foreign Minister Wang Yi focused primarily on preparations for the upcoming Dec. 2-3 visit of Chinese People's Political Consultative Conference Chairman Jia Qing Lin. According to the head of the Political Section of the Chinese Embassy in Kathmandu, the Chinese delegation sought and received assurances that the embattled Government of Nepal (GON) would be able to provide adequate security for the visit. Although "politically there is no problem" in bilateral relations between the two nations, he expressed frustration at GON slowness in implementing Chinese assistance projects and noted that the comparatively poor quality of Nepali products--and thus their noncompetitiveness in Chinese markets--makes improvement in the trade imbalance between the two countries unlikely in the near term. An official visit for Crown Prince Paras to Beijing is being planned for 2004. End summary.

CPPCC Chairman's Visit in Works

2. (SBU) On October 21 Poloff met with Cheng Ji, Chief of the Chinese Embassy's Political and Press Section, to discuss the October 16-18 visit to Kathmandu of Chinese Vice Foreign Minister Wang Yi. Cheng said although Wang's visit was officially characterized as part of regular bilateral consultations between the two nations (which are supposed to be held annually, but which in practice often slip a year), its main purpose this time was to prepare for the upcoming visit of Chinese People's Political Consultative Conference Chairman Jia Qinglin to Kathmandu December 2-3. (Note: This visit, which will include other South Asian countries, marks his first official trip as Chairman. End note.) Cheng said the Vice FM sought and received assurances from his interlocutors that the Government of Nepal (GON) could provide adequate security for the Chairman's visit. Wang's visit coincided with a much-hyped Nepal-Tibet trade fair in Kathmandu and followed closely the October 15 official visit to Beijing of Royal Nepal Army Chief of General Staff Lt. Gen. Victory Rana.

BILATERAL RELATIONS: "NO PROBLEM"

3. (C) Politically there is "no problem" in bilateral relations between the two nations, Cheng declared. An official visit by Crown Prince Paras to Beijing is being planned for 2004. The official Chinese position regarding the seven-year insurgency waged by Maoist rebels--whom the Chinese Embassy prefers to call "anti-government activists"--is that the conflict is purely an internal affair which the GON is fully capable of resolving on its own. When pressed to elaborate on this position, Cheng explained patiently, "This is what we always say. We never change it," regardless of what may be happening in the field. When asked for his government's views on recent speculation in the local press that the Maoists may seek another ceasefire, Cheng said, the GON should continue to "take action militarily against the Maoists" in the near term but that ultimately the conflict must be resolved through negotiations.

4. (SBU) The main "deliverable" during Wang's visit, according to Cheng, was an agreement between the two governments to open two additional trading points on the Nepal-Tibet border. Recently, Cheng noted, the GON has been pressing the Chinese government to grant greater economic and trade concessions to help it reap some of the benefits of China's economic boom and to redress the trade imbalance between the two governments (about USD 58 million in China's favor in FY 02, not including a substantial trade in smuggled Chinese goods). Since China is unlikely to increase its imports from Nepal significantly in the near term (the local press quoted an unnamed Chinese official in Wang's entourage

as attributing the trade imbalance to the inferior quality of Nepali goods), Cheng said the delegation proposed expanding Chinese tourism to Nepal as a way of reducing the trade surplus. He enumerated several steps already taken to this end. Since the end of 2001, when the Chinese government included Nepal as one of a number of officially approved tourist designations, tourist arrivals from China have increased by 13 percent. The GON has exempted Chinese tourists from visa fees and now allows them to apply for visas upon arrival. The two governments signed a bilateral air services agreement earlier this year, which has doubled the number of flights between China and Nepal (from 7 to 14).

Finally, since June Chinese tourists have been able to use yuan to pay for expenses incurred while traveling in Nepal. (Comment: The GON views progress thus far in increasing revenues from Chinese tourism as disappointing. The local press covering Wang's visit, referring to Chinese pledges to promote tourism to Nepal, commented, "a positive outcome of this development is yet to be realized." End comment.)

ECONOMIC AID: YOU CAN'T GIVE IT AWAY

15. (C) Although the GON has pressed for increased Chinese economic assistance, it has been notoriously slow in moving to implement bilateral aid projects, Cheng complained. Each year the Chinese government advises the GON it can offer about USD 10 million in (tied) aid, generally for infrastructure projects, and asks the GON to list priorities for the funding. Cheng lamented the GON's slow response to these offers, noting that often the full USD 10 million remains unspent. Only one of three projects agreed to at the last bilateral consultation in 2001--construction of a new building for the state-owned television station--has been completed, Cheng said, and even then the GON repeatedly delayed scheduling a hand-over ceremony for the completed building. Only after the Chinese Ambassador complained directly to the King did the ceremony take place. Other pending projects include construction of a hospital for civil servants, a polytechnic institute, and a 22-km highway in Rasuwa District that will link with a highway in Tibet.

COMMENT

16. (C) Landlocked and underdeveloped, Nepal runs substantial trade deficits with both of its powerhouse neighbors. Nepal's trade relations with India have historically been contentious, and the GON is obviously hoping to develop more robust relations with China to counterbalance the tremendous influence of its southern neighbor. Nepalese planners are excited by the construction of a railroad from the Chinese heartland to Lhasa, hoping the Chinese government can be persuaded to extend it toward the main Sino-Nepal border crossing point at Kodari. China's polite but tepid response to GON overtures regarding trade expansion--parrying requests for concessions in the present with hypothetical benefits from an as yet unrealized tourism boom--will likely do little in the near term to meet Nepalese aspirations.

BOGGS